

Budget Press Conference

Thursday, January 26, 2005

Good afternoon.

As you know, I will be submitting my budget proposal for fiscal year 2006 to the General Assembly this afternoon. I want to take a few minutes to discuss the priorities that are reflected in this budget, and to outline how I believe it begins to address many of our state's underlying problems. Before I do that, however, I want to take a moment to thank all the people who worked hundreds of hours to put this budget together. In particular, I want to thank State Budget Officer Rosemary Booth-Gallogly and her team at the budget office. They worked hard, and they did a great job.

I also want to thank Jeff Grybowski for helping to drive this process forward over the past couple months. Finally, I want to thank the Cabinet Directors for all their efforts.

As you all know, this was another tough budget year. We were faced with a \$164M budget deficit, and confronted with a number of areas that were crying out for new investments. We worked hard to carefully balance priorities, to provide funding increases where appropriate, and to ensure that no single area -- and no single group of citizens -- bore the brunt of necessary spending cuts.

I am confident that we succeeded.

The budget I am submitting today reflects 3 critical priorities. **First**, this budget avoids using tax hikes to solve the state's structural deficit. **Second**, it constrains state spending. And, **finally**, it makes targeted investments designed to grow jobs, improve our schools and make Rhode Island a better place to live.

Let me start with taxes. For the past 2 years, I have argued that Rhode Islanders are taxed too much. As I said in my State of the State Address, Rhode Island already suffers from the 6th highest tax burden of any state in the country. We cannot ask our citizens to pay any more.

Instead of raising taxes to cover the state's projected budget deficit, my budget plan includes more property tax relief for seniors. Currently, senior citizens are eligible to receive a \$250 check from the state to help offset the cost of local property taxes. My budget plan would increase this rebate to \$500. But this is just a down payment on tax relief.

As you know, I have asked the Economic Policy Council to develop a broader plan to reduce broad based taxes for all Rhode Islanders. And I have proposed that future lottery revenues be devoted to property tax relief. While we won't be in a position to implement a broad-based tax plan this year, we can begin to prepare the way by working to constrain state spending. Rhode Island's high rate of taxes is a direct result of its high rate of spending.

This budget includes a number of measures designed to slow the rate of spending growth, and to ensure that we are delivering state services more efficiently and more effectively.

As in every budget that I have submitted, the spending cuts are targeted in 3 critical areas: personnel costs; efficiency savings; and tightening our management of our human services programs. Specifically, we are working to reduce the skyrocketing growth in personnel costs. Earlier this week, I announced a plan to save the state, as well as cities and towns, \$256M in retirement costs over the next 5 years. This proposal will save the state \$25M and local governments \$18.5M in the next fiscal year alone.

These savings are a critical element in the budget I'm submitting today. They are also critical to lowering the state's long-term structural deficit. This problem will only get worse the longer we wait to implement meaningful reforms. We are also continuing negotiations with state employee unions to implement a health insurance co-share for all state workers. While the savings from a co-share are not included in this budget, I am hopeful we can come to an agreement on this issue soon.

We are also saving taxpayers money by being more efficient. The Big Audit continues to save Rhode Island taxpayers millions of dollars. In the current year, Fiscal Fitness is saving the state over \$22M. This year, we will add another \$23M in new savings.

Another major Fiscal Fitness initiative focuses on reducing the costs of administering state employee health care benefits. When that contract is finalized, we expect to save \$25M over 3 years. As a result, my Fiscal Fitness program will reduce state spending by well over \$50M in the next fiscal year alone. As you know, the Fiscal Fitness program is a multi-year project. Many of Fiscal Fitness recommendations will require General Assembly approval. Many others depend on negotiations with state employee unions. We haven't reached our final savings goal yet. But rest assured that we are well on our way. In the coming weeks, we will be releasing a major status report on Fiscal Fitness that will detail what we've achieved, and what still needs to be done.

My Administration is also working to ensure that Rhode Island's human service programs are run more efficiently. Rhode Island's programs to protect and assist our most vulnerable citizens are among the most comprehensive in the nation. Entitlement programs continue to be one of the biggest drivers in the budget. While we have worked hard to preserve these critical programs, we have also initiated a number of reforms. Let me highlight just a few.

The object of these reforms is two-fold. First, we must ensure that only eligible people actually receive benefits. For example, expanding the fraud and abuse investigation unit at the Department of Human Services will save taxpayers \$2.8M next year in improper benefit payments. Second, we must begin to ensure that the recipients of these benefits have a stake in the system. To achieve that goal, we will require recipients of state-paid health care, such as child care providers, to co-share at least some of the cost of their benefit. People in the private sector do it. Rite Care recipients do it. It's only fair to ask child care providers to do it too.

We have also included a number of initiatives to save taxpayer money by improving the way we operate these programs. We will require that recipients of cash assistance in our welfare-to-work program complete their work plans before they receive a payment. While this new requirement will not be a problem for most people, it will help cut down on the number of people abusing the system. In the end, however, these important reforms will not be enough to slow the underlying growth rate of Rhode Island's entitlement system. My budget leaves the core human service programs untouched.

But as the cost of these benefits continues to increase, we will be faced with a stark choice. We will be required to increase taxes or to make cuts in core services.

In the coming year, I will form a group to study the growth in Rhode Island's entitlements, and to recommend ways of reducing costs while preserving core services. This group will be composed of people from within -- and from outside -- state government. Together, we must find a way to enable the state to continue providing this extraordinary level of protection to vulnerable families, while making these programs affordable to taxpayers.

Finally, my budget makes the investments necessary to create good jobs, good schools, and a good place to live. As I reported in my State of the State Address, we are almost halfway towards my goal of

creating 20,000 net new jobs in 4 years. It's easy to forget that, when I made that proposal 2 years ago, most economists thought it was unachievable. One economic forecasting company -- Global Insight -- predicted that we would create 15,000 jobs at most. Another, Economy.com, projected job growth of 17,300 over 4 years. And Rhode Island's own Revenue Estimating Conference held out hope for only 13,600 new jobs.

I'm glad to report that we are proving them all wrong. But to maintain and expand that rate of job growth, we must continue to invest in business, and to foster a business-friendly climate. My budget does that. My Jobs Partnership Act will enable the Economic Development Corporation to issue loans to help small businesses locate and expand in Rhode Island. The Science and Technology Advisory Council will help us attract research dollars from the National Science Foundation, and to encourage the commercialization of research at Rhode Island's institutions of higher learning. Increased funding for Adult Literacy Programs will help provide Rhode Island citizens with the basic skills they need to get and keep a job.

Continued investments in the Slater Fund and the Marine Biosciences Park at Quonset will provide Rhode Island with a launching pad into the new economy. Taken together, these investments will help Rhode Island attract business and create the jobs that will sustain our economy for years to come.

Good Schools:

My budget includes major new investments in education. We are increasing the state's total contribution to local education by \$37.1M. That includes a \$15.7M increase in direct aid to local schools, as well as \$3.9M in new funding for public charter schools. But increased funding isn't the only solution. My budget also finances a series of innovative reforms to improve standards and performance in Rhode Island's schools.

We will invest \$250,000 in new science technology teaching specialists, to help our children acquire these critical skills. The Department of Education will use \$400,000 to develop a statewide curriculum, so that every child is learning at grade level. We will fund a leadership program for our principals, so that no school is left behind. We will make a major, \$1.2M investment in technology to help us measure the performance of our schools and of our students. And we will provide an additional \$800,000 to help struggling high schools and middle schools.

We must also offer our children a real chance to go to college. In my first budget proposal, I doubled funding for scholarships. In my State of the State Address last week, I announced my plan to increase scholarship aid by another \$20M. The Tuition Opportunity Program will enable every qualified Rhode Island student to attend URI, RIC or CCRI. It will also include extra funding for students who pursue studies in nursing or math and science.

Good Place to Live

This budget plan makes the investments necessary to ensure that Rhode Island continues to be a great place to live.

First and foremost, we are investing in Rhode Island's cities and towns. As I mentioned earlier, local education aid is set to increase by over \$37M. General Revenue Sharing will increase by another \$1M. On January 1st, Rhode Island cities and towns began to collect the 1% increase in the hotel tax. We project that the new tax will generate \$2.8M in municipal revenue next year. And cities and towns are already getting the benefits from the recent increase in the meals and beverage tax.

We are also working to lower personnel costs for local communities. My pension reform plan will save cities and towns over \$18M next year. And by allowing municipalities to get the same administrative rates as the state, our new employee health care contract will save cities and towns additional millions of dollars every year. Our investments in our local communities are real and they are substantial.

As our largest city, Providence will benefit the most from the state's efforts. Direct aid to Providence schools will increase by \$3.8M. That figure doesn't include increased funding for teacher retirement, school construction, state schools, or public charter schools, whose students would otherwise be paid for by the Providence School System. And we expect that our Capital City will save another \$3.3M under my pension reform plan.

To ensure that we have a good place to live, we must also invest in protecting our environment. My budget includes \$1M in new funding to monitor water quality, nearly \$700,000 to protect our drinking water delivery systems, and over \$900,000 for the new Bay Island State Park System. We will also fully fund the Narragansett Bay Coordination Team.

My budget includes a major new incentive to encourage recycling. Under my plan, we will freeze the tipping fee that cities and towns pay to dispose of waste at the landfill if they meet a minimum recycling requirement of 20%. Communities that lag behind in their efforts to have their citizens recycle will have to pay an extra \$9.34 per ton. By encouraging recycling, we will help the environment and we will extend the life of the state landfill.

Finally, this budget plan also invests in the people of Rhode Island. We are encouraging the development of affordable housing by investing another \$5M in the Neighborhood Opportunity Program, and by opening a new Office of Housing and Community Development. We have made historic investments in this area, and we are expanding our efforts this year.

This budget invests in public safety by funding 6 new inspectors in the Fire Marshal's Office. On inauguration day, 2 years ago, the Fire Marshal's Office had only 21 employees. By the end of this year, it will have 38. We will help former inmates at the ACI more successfully reintegrate into our communities by investing \$300,000 in prisoner reentry programs, and by completing design work for a Prisoner Reintegration Center.

We are also funding 5 new lawyers at the Public Defender's office. This investment will help ensure that defendants receive appropriate representation, are offered alternatives to incarceration, and don't unnecessarily crowd our prison system.

My budget also provides \$1.2M in new money from general revenues to fund Project Hope at DCYF. Combined with \$69.7M for the new Training School, this represents our commitment to helping the children in DCYF's care successfully reintegrate into society.

Provide as much tax relief as possible. Constrain the rate of spending. And make targeted investments in jobs, schools and our community. My budget plan does all that. As I said at the beginning, this budget was a challenge to put together. We began with a \$164M deficit, and we needed to balance a host of critical, but competing priorities.

I believe we succeeded.

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